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King's department stores, inc.

25th Anniversary

ANNUAL REPORT 1974

1949 - Our first store

A recent store - 1974

QUARTER CENTURY OF PROGRESS

King's Department Stores, Inc., founded in 1949 by its present Vice Chairman of the Board, Murray A. Candib, operates a chain of 112 discount department stores located in 17 states in the East, South and Midwest. The Company's stores offer a wide range of consumer merchandise at discount prices, including clothing and shoes for every member of the family, home furnishings and leisure time products.

The average King's store is approximately 60,000 square feet in size and is located in a suburban shopping center which includes a supermarket and other retailers. The center is usually situated on a major highway, with easy access and plentiful free parking. Most units are housed in one story, air conditioned buildings specially designed for efficient customer servicing.

Customers serve themselves, using shopping carts to accumulate merchandise and sales are recorded at central checkouts. Family shopping is encouraged since stores are open a minimum of six days a week from 10:00 A.M. to 10:00 P.M. Customer satisfaction is assured by a liberal refund policy which permits return of merchandise for any reason.

Management and direction of the Company's operations are centralized at its executive offices in Newton, Massachusetts. The Company operates a modern distribution facility in Chelmsford, Massachusetts which handles health and beauty aids, housewares, hardware, automotive products and shoes. The Company also has buying offices in New York City and buying agents in Europe and the Far East.

KING'S ANNUAL REPORT / 1974
FINANCIAL HIGHLIGHTS

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	52 weeks ended FEBRUARY 1, 1975	53 weeks ended FEBRUARY 2, 1974
TOTAL SALES	$291,880,000	$279,311,000
EARNINGS BEFORE TAXES AND EXTRAORDINARY CREDIT	14,700,000	17,778,000
EARNINGS BEFORE EXTRAORDINARY CREDIT	8,060,000	9,605,000
EXTRAORDINARY CREDIT	—	93,000
NET EARNINGS	8,060,000 (1)	9,698,000
EARNINGS PER COMMON SHARE:		
BEFORE EXTRAORDINARY CREDIT	$.93	$1.11
EXTRAORDINARY CREDIT	—	.01
NET EARNINGS	$.93 (1)	$1.12

(1) Reflects adoption of last-in, first-out (LIFO) method of inventory valuation which reduced net earnings by $1,250,000 (14¢ per share).

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ANNUAL MEETING

The annual stockholders' meeting of King's Department Stores, Inc., will be held on Wednesday, June 4, 1975 starting at 2:00 P.M. at the First National Bank of Boston, 100 Federal Street, Boston, Massachusetts. Stockholders are cordially invited to attend.

MURRAY A. CANDIB
Vice Chairman

AARON O. COHEN
Chairman

WILLIAM F. KENNEY
President

TO OUR SHAREHOLDERS:

Our year's results were gratifying when consideration was given to the unprecedented recessionary conditions that our management team had to surmount.

Earnings before extraordinary credit amounted to $8,060,000 (93¢ per share), as compared to $9,605,000 ($1.11 per share) in 1973. The Company changed to the LIFO method of valuing approximately $46,200,000 of its merchandise inventories, representing 94.4% of the total at year-end. This resulted in a diminution of net income in the amount of $1,250,000, or 14¢ per share of common stock.

In the opinion of management, the LIFO method achieves a more realistic matching of current costs with current revenues in an inflationary environment. While this action had a significant effect on reported earnings, it had the benefit of providing additional cash for use in business.

Total sales for the year just ended were $291,880,000, an increase of 4.5%. King's pre-tax income was 5.0% of sales and we achieved a 13.7% return on invested capital of $58,954,000 at February 2, 1974. Our current ratio, a measurement of corporate liquidity, was 8.1:1.

On June 5, 1974, the Board of Directors increased the annual rate of cash dividends 33⅓% (from 30¢ to 40¢ per share), the highest paid in our company's history.

Six stores were opened in 1974: four in March, one in August, one in October. One marginal profit store was closed, in line with our discipline to terminate non-contributing operations.

Since year-end we have opened two stores, one in Seabrook, New Hampshire and one in Doylestown, Pennsylvania. We now operate 112 stores in 17 states. Four additional stores are scheduled for opening in 1975. We will continue to expand our operation in line with the availability of King's trained personnel and appropriate locations at rentals consistent with our budgetary requirements.

In February, 1975, the Company offered $2.00 in cash and $6.00 principal amount of 10% subordinated debentures, due January 1, 1990, in exchange for each share of King's common stock. 963,866 shares were accepted which effected an 11% reduction in our outstanding stock. Our cash position was not materially affected by this payment. As in the past, internal sources are expected to provide our capital requirements for 1975.

Economic forecasters cover the full spectrum of opinion when they attempt to gauge the rate of recovery. However, it is not necessary for us to base our continuing operations on economic conjecture because we avoid speculation in the merchandise market.

Our conservative and flexible merchandise programs enabled us to maintain stocks at appropriate levels and thereby we avoided the creation of unbalanced high inventories with resultant excessive markdowns – the single greatest controllable cause of reduced earnings in our industry.

King's is in a strong financial position, able to cope with continuing economic problems, or to take advantage of the opportunities which should arise from an improvement in business conditions.

While we continue into 1975 with a feeling of suspended optimism, we are confident that the new responsibilities given senior management officers (please refer to page four, "Top Management Changes") will give additional motivation and a fresh, strong approach to our daily and seasonal decisions.

The excellent results of 1974 were made possible by the dedication of all of our associates and their intelligent response to multiple problems. We also extend our sincere thanks to our valued customers for their goodwill, to our shareholders for their confidence and to our suppliers for their support.

William F. Kenney

WILLIAM F. KENNEY
President

April 18, 1975

TOP MANAGEMENT CHANGES

PAUL KWASNICK MORTON S. FISHER

At the regular meeting of King's Board of Directors in January, President William F. Kenney was elected to the position of Chairman of the Executive Committee. Executive Vice President Paul Kwasnick was named President, effective June 4, 1975.

Mr. Kwasnick joined King's in 1973 as Executive Vice President and was subsequently elected a Director and member of the Executive Committee. He has been in retailing for twenty-eight years and his most recent position was with a major discount department store chain as Senior Vice President-Finance and Treasurer. Mr. Kwasnick was graduated from The City College of New York in 1947 and received an MBA degree from that institution's graduate school of business in 1957.

Senior Vice President Aaron G. Goldberg was elevated to Director of Marketing. Senior Merchandise Manager Morton S. Fisher was elected to the corporate office of Vice President and succeeded to the position of General Merchandise Manager.

Mr. Fisher joined the Company in 1974 as Senior Merchandise Manager responsible for all fashion merchandising. He has been employed in retailing since 1948 and has held important retail merchandising positions with several large chains. He received his BA degree in 1948 from New York University College of Arts and Pure Science.

MANAGEMENT'S DISCUSSION AND ANALYSIS

1974–1973

The sales increase of 4.5% was attributable to additional store openings. There were 110 stores in operation at end of year compared to 105 at the end of the prior year.

The principal cause of our reduced earnings was the adoption of the LIFO method of inventory valuation which reduced net earnings by $1,250,000 or 14¢ per share. The balance of the reduction in earnings was the result of inflationary pressures on both cost of goods sold and operating expenses.

1973–1972

The increase in total store sales during this period was principally attributable to the additional number of stores in operation during the latter year (105 vs. 92).

Increases in (i) cost of goods sold, transportation, warehousing and buying expenses, (ii) store operating, administrative and general expenses, and (iii) depreciation and amortization were principally attributable to the effects of inflation and the increase in the number of stores in operation during the period.

Although pre-tax profit margins declined as a percentage of sales because of increases in items (ii) and (iii) in the preceding paragraph, net earnings increased. In management's opinion, this increase was due principally to increased sales and an improved gross profit margin effected by a reduction in pilferage in the Company's stores, a shift in product mix to more profitable items and lower transportation costs as a percentage of total cost of goods purchased.

FIVE YEAR FINANCIAL SUMMARY

All dollar figures in thousands except amounts per share

For the years ended January	52 weeks **1975**	53 weeks 1974	52 weeks 1973	52 weeks 1972	12 months 1971
Total Sales	**$291,880**	$279,311	$242,404	$223,228	$216,915
Leased Department Sales	**18,446**	23,332	26,465	28,569	31,560
Net Sales	**273,434**	255,979	215,939	194,659	185,355
Earnings Before Taxes and Extraordinary Credit	**14,700**	17,778	15,797	15,618	14,431
Federal Income Taxes	**6,640**	8,173	7,245	7,373	7,123
Earnings Before Extraordinary Credit	**8,060**	9,605	8,552	8,245	7,308
Extraordinary Credit	**—**	93	624	639	379
Net Earnings	**8,060**(1)	9,698	9,176	8,884	7,687
Net Earnings as a Percent of Net Sales	**3.0%**(1)	3.8%	4.2%	4.6%	4.1%
Current Assets	**57,915**	58,105	55,409	45,174	38,923
Current Liabilities	**7,190**	12,456	13,432	8,362	8,902
Working Capital	**50,725**	45,649	41,977	36,812	30,021
Current Ratio	**8.1**	4.7	4.1	5.4	4.4
Long-Term Debt	**3,695**	3,813	658	704	748
Stockholders' Equity	**63,758**	58,954	51,842	44,864	38,085
Per Share:					
Earnings Before Extraordinary Credit	**.93**(1)	1.11	.99	.96	.85
Extraordinary Credit	**—**	.01	.07	.07	.05
Book Value	**7.34**	6.79	5.98	5.20	4.44
Cash Dividends	**.38**	.30	.28	.28	.20
Stock Dividends	**—**	—	—	2 for 1	—
Total Cash Dividends Paid	**3,256**	2,605	2,428	2,417	1,718
Average Shares Outstanding	**8,683,754**	8,682,646	8,668,823	8,628,723	8,587,246
Number of Stores	**110**	105	92	82	81

(1) During fiscal 1975, the Company adopted the last-in, first-out (LIFO) method of inventory valuation. Net earnings for the year were reduced by $1,250,000 (14¢ per share).

KING'S DEPARTMENT STORES, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

February 1, 1975 and February 2, 1974

ASSETS

	1975	1974
Current Assets		
Cash	$ 2,152,000	$ 2,669,000
Marketable securities, at cost which approximates market	6,350,000	10,904,000
Refundable Federal income taxes	1,225,000	–
Receivables	793,000	904,000
Merchandise inventories (notes 1 and 2)	46,288,000	42,545,000
Prepaid expenses	1,107,000	1,083,000
Total current assets	57,915,000	58,105,000
Fixed assets, at cost (notes 1 and 3):		
Land	530,000	571,000
Buildings	4,168,000	4,168,000
Fixtures and equipment	23,601,000	21,728,000
Leasehold improvements	2,494,000	2,331,000
	30,793,000	28,798,000
Less accumulated depreciation and amortization	14,158,000	12,380,000
Net fixed assets	16,635,000	16,418,000
Other assets:		
Unamortized leasehold acquisition costs	1,073,000	1,183,000
Goodwill, less amortization (note 1)	193,000	293,000
Investments and deposits	132,000	142,000
Other	150,000	338,000
Total other assets	1,548,000	1,956,000
	$76,098,000	$76,479,000

See accompanying notes to consolidated financial statements.

LIABILITIES AND STOCKHOLDERS' EQUITY

	1975	1974
Current Liabilities:		
Current installments on mortgage notes payable	$ 97,000	$ 89,000
Accounts payable	3,329,000	6,847,000
Accrued expenses	3,503,000	4,219,000
Federal income taxes	261,000	1,301,000
Total current liabilities	7,190,000	12,456,000
Deferred compensation (note 1)	772,000	492,000
Deferred Federal income taxes (notes 1 and 7)	683,000	620,000
Mortgage notes payable (note 3)	3,695,000	3,813,000
Minority interest in subsidiary (note 4)	—	144,000
Stockholders' equity:		
Preferred stock, $1 par value. Authorized and unissued 1,000,000 shares	—	—
Common stock, $1 par value (notes 5 and 10). Authorized 15,000,000 shares; issued 8,684,000 shares	8,684,000	8,684,000
Additional paid-in capital	2,629,000	2,629,000
Retained earnings	52,445,000	47,641,000
Total stockholders' equity	63,758,000	58,954,000
Commitments (note 9)		
	$76,098,000	$76,479,000

KING'S DEPARTMENT STORES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS AND RETAINED EARNINGS

Fifty-two weeks ended February 1, 1975 and fifty-three weeks ended February 2, 1974

	1975	1974
Total store sales	$291,880,000	$279,311,000
Less leased department sales	18,446,000	23,332,000
Net sales	273,434,000	255,979,000
Leased department income	2,043,000	3,018,000
Interest and other income	1,993,000	1,863,000
Total income	277,470,000	260,860,000
Cost of goods sold, transportation, warehousing and buying expenses (note 2)	186,326,000	171,324,000
Store operating, administrative and general expenses including leased department expenses	73,814,000	69,447,000
Depreciation and amortization (note 1)	2,238,000	2,150,000
Minority interest in earnings of subsidiary	—	55,000
Interest expense	392,000	106,000
Total costs and expenses	262,770,000	243,082,000
Earnings before Federal income taxes and extraordinary credit	14,700,000	17,778,000
Federal income taxes (notes 1 and 7)	6,640,000	8,173,000
Earnings before extraordinary credit	8,060,000	9,605,000
Credit arising from utilization of net operating loss carryforwards	—	93,000
Net earnings	8,060,000	9,698,000
Retained earnings at beginning of year	47,641,000	40,548,000
	55,701,000	50,246,000
Deduct dividends paid, $.38 per share (1974 – $.30 per share)	3,256,000	2,605,000
Retained earnings at end of year	$ 52,445,000	$ 47,641,000
Earnings per common share (note 1):		
Earnings before extraordinary credit	$ .93	$ 1.11
Credit arising from utilization of net operating loss carryforwards	—	.01
Net earnings	$ .93	$ 1.12

See accompanying notes to consolidated financial statements.

KING'S DEPARTMENT STORES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

Fifty-two weeks ended February 1, 1975 and fifty-three weeks ended February 2, 1974

	1975	1974
Source of working capital:		
Earnings before extraordinary credit	$ 8,060,000	$ 9,605,000
Items which do not use working capital:		
Depreciation and amortization	2,238,000	2,150,000
Deferred Federal income taxes	63,000	150,000
Deferred compensation	280,000	92,000
Other	(8,000)	54,000
Working capital provided by operations, before extraordinary credit	10,633,000	12,051,000
Extraordinary credit	—	93,000
Working capital provided by operations	10,633,000	12,144,000
Increase in mortgage notes payable	—	3,244,000
Proceeds from sales of shares under stock options	—	19,000
	10,633,000	15,407,000
Application of working capital:		
Additions to fixed assets, net of minor disposals	2,290,000	7,185,000
Dividends paid	3,256,000	2,605,000
Purchase of minority interest (note 4)	91,000	1,516,000
Payments on mortgage notes payable	118,000	89,000
Increase (decrease) in other assets	(198,000)	340,000
	5,557,000	11,735,000
Increase in working capital	$ 5,076,000	$ 3,672,000
Changes in components of working capital:		
Increase (decrease) in current assets		
Cash and marketable securities	$ (5,071,000)	$ (6,085,000)
Refundable Federal income taxes	1,225,000	—
Receivables	(111,000)	(65,000)
Inventories	3,743,000	7,992,000
Prepaid expenses	24,000	854,000
	(190,000)	2,696,000
(Increase) decrease in current liabilities:		
Current installments on mortgage notes payable	(8,000)	(43,000)
Accounts payable	3,518,000	945,000
Accrued expenses	716,000	109,000
Federal income taxes	1,040,000	(35,000)
	5,266,000	976,000
Increase in working capital	$ 5,076,000	$ 3,672,000

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fiscal year

The fiscal year of the Company ends on the Saturday nearest January 31 each year. The fiscal year ended February 1, 1975 consisted of 52 weeks, whereas the previous fiscal year consisted of 53 weeks.

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned except one minor subsidiary which was 92% owned at February 2, 1974 and is now wholly owned. All material intercompany transactions have been eliminated.

The Company has a 50% interest in four joint ventures which were established for the construction and operation of four shopping centers in which the Company is one of the principal lessees (see note 8). The Company's investments in the joint ventures are carried under the equity method.

Inventory valuation

Effective with the fifty-two weeks ended February 1, 1975, the Company changed its method of determining the cost of its inventories from the conventional retail method to the last-in, first-out (LIFO) retail method (see note 2).

Deferred compensation plan

The Company's deferred compensation plan provides key executives with a lifetime pension of 50% of their highest annual compensation rate, after giving effect to the Company's regular pension plan and Social Security benefits. The estimated amounts to be paid under the agreements are unfunded and are being accrued over the estimated remaining period of active employment for each executive covered.

Retirement plan

The Company and most of its subsidiaries have a non-contributory retirement plan covering regular, full-time employees with three or more years of completed employment. The cost of retirement benefits, which is being funded, has been determined by the entry age normal method. Past service costs are amortized over a thirty-year period.

Depreciation and amortization

Depreciation of fixed assets and amortization of leasehold improvements and leasehold acquisition costs are provided for book purposes on the straight-line method over the following estimated useful lives:

Buildings	40 years
Fixtures and equipment	10 years
Leasehold improvements	10 years
Leasehold acquisition costs	7-26 years

Goodwill

The excess of cost over underlying net assets of subsidiaries, arising from the purchase of the minority interests, is being amortized on the straight-line basis over five years.

Store opening and closing costs

Expenditures of a non-capital nature incurred prior to the opening of a new store are charged to expense over the remainder of the fiscal year in which the store is opened.

Costs of early closing, including the settlement of unexpired rental obligations, less any sublease amounts, are expensed in the year the Company formally decides to close a store.

Federal income taxes

The Company reflects the investment tax credit as a reduction of income taxes in the year the credit occurred (the flow-through method).

The Company has provided deferred Federal income taxes which reflect the tax effect of timing differences in reporting income for tax purposes. Such differences arise in accounting for depreciation and deferred compensation expenses.

Earnings per share

Earnings per common share have been determined using the weighted average number of shares of common stock outstanding, without consideration of shares contingently issuable under outstanding stock option plans, since the effect of such inclusion would be minimal.

2. INVENTORIES—CHANGE IN ACCOUNTING METHOD

Effective with the fifty-two weeks ended February 1, 1975, the Company changed its method of determining the cost of 94.4% of its total inventories from the conventional retail method to the last-in, first-out (LIFO) retail method. This change in the method of valuing merchandise inventories was made because Management believes the LIFO method achieves

a better matching of current costs and current revenues. The effect of the change, made for both financial and income tax reporting purposes, was to reduce the value of inventories by approximately $2,582,000 at February 1, 1975, and to reduce net earnings for the fifty-two weeks then ended by approximately $1,250,000 (14¢ per share).

Due to the nature of this change, it is not possible to determine the cumulative effect on retained earnings at the beginning of the period. Accordingly, pro forma results of operations for the prior period, had this principle been followed, have not been presented.

3. MORTGAGE NOTES PAYABLE

Mortgage notes payable are comprised of the following:

5.75% Note amounting to $589,000 (1974 – $658,000) secured by land and buildings with a net book value of $1,632,000. Monthly installments of principal and interest of $7,000 are payable through 1984.

8.35% Note amounting to $3,203,000 (1974 – $3,244,000) partially secured by a building with a net book value of $2,853,000. Monthly installments of principal and interest of $26,000 are payable through November, 1978 with the remaining balance estimated at $2,948,000 payable on December 12, 1978.

4. MINORITY INTEREST IN SUBSIDIARY

During the year ended February 1, 1975, the Company purchased the minority interest in Berkshire Distributors, Inc. for $91,000, increasing its equity ownership from 92% to 100%.

During the year ended February 2, 1974, the Company purchased the minority interest in Miracle Mart, Inc. for $1,516,000, increasing its equity ownership from 81% to 100%.

5. STOCK OPTION PLANS

Options to purchase shares of common stock have been granted to officers and key employees at 100% of the fair market value on the date of the grant, exercisable at the cumulative rate of 25% annually, subject to acceleration at the discretion of the Stock Option Committee.

A summary of options granted, becoming exercisable, exercised and cancelled during the fiscal years ended February 1, 1975 and February 2, 1974 are as follows:

Fiscal Years Ended	Number of Shares	Option Price		Approximate Market Value	
		Per Share	Total	Per Share	Total
Granted:					
February 1, 1975	–	–	–	–	–
February 2, 1974	10,000	$7.88	$ 78,800	$7.88	$ 78,800
Becoming exercisable:					
February 1, 1975	42,575	6.38/17.25	410,359	4.75/6.38	229,662
February 2, 1974	43,075	6.38/17.25	422,373	5.12/7.50	289,635
Options exercised:					
February 1, 1975	–	–	–	–	–
February 2, 1974	2,600	6.38/8.62	18,852	7.00/12.62	32,000

Options cancelled during the fiscal years ended February 1, 1975 and February 2, 1974 amounted to 2,400 shares and 8,600 shares, respectively.

At February 1, 1975 and February 2, 1974 outstanding options by year of grant were as follows:

February 1, 1975	Number of Shares	Option Price*	
		Per Share	Total
1970	101,300	$6.38-$8.63	$ 726,295
1971	39,100	17.25	674,475
1972	1,200	16.50	19,800
1973	10,000	7.88	78,800
	151,600		$1,499,370

February 2, 1974	Number of Shares	Option Price*	
		Per Share	Total
1970	102,500	$6.38-$8.63	$ 734,823
1971	40,300	17.25	695,175
1972	1,200	16.50	19,800
1973	10,000	7.88	78,800
	154,000		$1,528,598

* Same as market value at date of grant.

At February 1, 1975 and February 2, 1974 there were available for future grant, options for 200,000 shares and 24,648 shares, respectively. In June of 1974, the stockholders approved the adoption of the Company's 1974 Stock Option Plan relating to 200,000 shares; no options have been granted under the 1974 plan.

NOTES (Continued)

Stock Options are protected against dilution in the event of stock splits, stock dividends and similar events.

No charges were made to income with respect to option arrangements.

6. RETIREMENT PLAN

The total retirement expense for the fiscal year was $417,000 (1974 – $376,000) and included amortization of past service costs. The Company has funded retirement costs accrued. As of the latest valuation date (February 1, 1974), the retirement fund assets exceeded the actuarially computed value of vested benefits.

Company actuaries have not yet determined the effect of the Employee Retirement Security Act of 1974 on the Company's existing retirement plan.

7. FEDERAL INCOME TAXES

	1975	1974
Taxes currently payable	$6,577,000	$7,930,000
Tax effect of net operating loss carry-forwards	–	93,000
Deferred taxes	63,000	150,000
	$6,640,000	$8,173,000

The effective rates for Federal income taxes are 45.2% and 46.0% in 1975 and 1974, respectively. This is less than the statutory rate due primarily to investment tax credits in the respective years of $183,000 and $191,000.

Federal income tax returns of the Company and its subsidiaries have been examined by the Internal Revenue Service through the year ended January 27, 1973.

8. JOINT VENTURES

At December 31, 1974 and 1973, the year end of the joint ventures, net fixed assets and mortgage notes payable of the joint ventures, not included in the consolidated balance sheets, were as follows:

	1974	1973
Net fixed assets	$4,800,000	$4,964,000
Mortgage notes payable	$5,780,000	$5,879,000

The investment in the joint ventures reflected a credit balance of $235,000 at February 1, 1975 and $289,000 at February 2, 1974 and was included in accrued expenses. In accordance with the equity method of accounting, the Company's share of current losses, which are nominal, is not being recorded in the Consolidated Financial Statements.

9. LEASE COMMITMENTS

The Company and its subsidiaries occupy certain store and distribution facilities under lease arrangements. Substantially all of the Company's leases qualify as financing leases as defined in the guidelines published by the Securities and Exchange Commission. A summary of rent expense under such arrangements follows:

	Fiscal year ended	
	February 1, 1975	February 2, 1974
Minimum annual rental on non-cancellable financing leases including maintenance costs, real estate taxes, insurance, etc.	$10,612,000	$9,999,000

Total rental expense includes contingent rentals paid to lessors of certain store facilities determined on the basis of a percentage of sales in excess of stipulated minimums. For both years presented, contingent rentals are less than 1% of total rental expense.

A summary of minimum annual rental on non-cancellable long-term lease commitments follows:

1976	$ 10,346,000
1977	10,295,000
1978	10,137,000
1979	9,860,000
1980	9,490,000
1981–1985	42,148,000
1986–1990	28,184,000
1991–1995	17,746,000
1996–2001	5,703,000
	$143,909,000

Such leases will expire on various dates to 2001; however, it is anticipated that as leases expire, they will be renewed or new leases will be executed. Certain of these leases provide that the Company is responsible for all or part of the real estate taxes, insurance, or common area maintenance.

The present value (based on interest rates existing at leases commencement dates, ranging from 3.3% to 12.0% with weighted average rates of 6.1% and 5.8% for 1975 and 1974, respectively) of future commitments on non-capitalized financing leases is summarized as follows:

February 1, 1975	$74,170,000
February 2, 1974	72,744,000

If non-capitalized financing leases were capitalized and amortized on a straight-line basis, the impact on net earnings for the fifty-two weeks ended February 1, 1975 and fifty-three weeks ended February 2, 1974 would be as follows:

	Fiscal year ended	
	February 1, 1975	February 2, 1974
Amortization of lease rights	**$4,955,000**	$4,990,000
Interest costs	**4,213,000**	3,424,000
Rental expense	**(8,449,000)**	(8,346,000)
	719,000	68,000
Income taxes	**370,000**	35,000
Decrease in net earnings	**$ 349,000**	$ 33,000

10. SUBSEQUENT EVENT—EXCHANGE OFFER

The Company, by means of an exchange offer, acquired 963,866 shares of its common stock after the balance sheet date. For each share of stock tendered, the Company paid $2 in cash and issued a $6, 10% Subordinated Debenture, due January 1, 1990. The following condensed consolidated balance sheet sets forth the pro forma effect of the Exchange Offer, assuming that the exchange had occurred as of February 1, 1975:

Total current assets	$55,987,000
Net fixed assets	16,635,000
Other assets	1,924,000
Total assets	$74,546,000
Total current liabilities	$ 7,566,000
Other non-current liabilities	5,150,000
Debentures (net of unamortized discount of $1,041,000)	4,742,000
Total stockholders' equity	57,088,000
Total liabilities and stockholders' equity	$74,546,000

AUDITORS' REPORT

PEAT, MARWICK, MITCHELL & CO.
CERTIFIED PUBLIC ACCOUNTANTS
ONE BOSTON PLACE
BOSTON, MASSACHUSETTS 02108

The Stockholders and the Board of Directors
King's Department Stores, Inc.:

We have examined the consolidated balance sheets of King's Department Stores, Inc. and subsidiaries as of February 1, 1975 and February 2, 1974 and the related consolidated statements of earnings and retained earnings and changes in financial position for the respective fifty-two and fifty-three weeks then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of King's Department Stores, Inc. and subsidiaries at February 1, 1975 and February 2, 1974 and the results of their operations and the changes in their financial position for the respective fifty-two and fifty-three weeks then ended, in conformity with generally accepted accounting principles applied on a consistent basis, except for the change, with which we concur, in the method of valuing inventories as described in note 2 to the consolidated financial statements.

PEAT, MARWICK, MITCHELL & CO.
April 18, 1975

QUARTERLY SALES AND EARNINGS SUMMARY AS RESTATED (Unaudited)
($000 Omitted)

	1974			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Sales	$55,575	$67,678	$83,484	$85,143
Net earnings	$ 612	$ 1,242	$ 2,337	$ 3,869
Earnings per share	$ .07	$ .14	$ .27	$ .45

During the fourth quarter of 1974, the Company changed its method of determining the cost of 94.4% of its inventories from the conventional retail method to the last-in, first-out (LIFO) retail method. This change in the method of valuing merchandise inventories was made because Management believes the LIFO method achieves a better matching of current costs and current revenues. The effect of the change, made for both financial and income tax reporting purposes in previous reporting periods of 1974, was to decrease net earnings by $237,000 (3¢ per share) for the quarter ended May 4, 1974; $289,000 (4¢ per share) for the quarter ended August 3, 1974; and $352,000 (4¢ per share) for the quarter ended November 2, 1974.

Due to the nature of this change, it is not possible to determine the cumulative effect on retained earnings at the beginning of the period. Accordingly, pro forma results of operations for the prior period, had this principle been followed, have not been presented.

COMMON STOCK PRICE RANGES AND DIVIDENDS

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Price Range of Common Stock				
1974 High	6¼	6	5½	6⅛
Low	5	4⅝	4	4
1973 High	12⅞	9⅞	9¾	12
Low	10⅛	6¾	6⅞	4¾
Cash Dividends Paid Per Share				
1974	$.075	$.100	$.100	$.100
1973	$.075	$.075	$.075	$.075

KING'S DEPARTMENT STORES, INC. and Subsidiaries

STORE LOCATIONS

CONNECTICUT
Manchester
Meriden
Middletown
Milford
Naugatuck
New Haven
Seymour
Stamford
West Hartford

FLORIDA
Ft. Lauderdale
West Palm Beach

INDIANA
Ft. Wayne (2)
Muncie
New Haven
Richmond

KENTUCKY
Bowling Green
Owensboro

MAINE
Auburn
Bangor
Biddeford
Falmouth
South Portland

MARYLAND
Cumberland
Hagerstown

MASSACHUSETTS
Agawam
Braintree
Brockton
Chicopee
East Longmeadow
Fitchburg
Greenfield
Hyannis
Lenox
Ludlow
Methuen
Newton
North Attleboro
Norwood
Quincy
Tewksbury

MICHIGAN
Grand Rapids

NEW HAMPSHIRE
Claremont
Concord
Keene
Lebanon
Plaistow
Portsmouth
*Seabrook

NEW JERSEY
Edgewater Park
Vineland

NEW YORK
Albany
Batavia
Buffalo
Cheektowaga
Niagara Falls
Plattsburgh
West Seneca

NORTH CAROLINA
Asheboro
Durham
Goldsboro
Greensboro
Greenville
Hendersonville
Raleigh (2)
Sanford
Shelby
Statesville
Wilmington
Wilson
Winston-Salem (2)

OHIO
Alliance
Lancaster
Lima (2)
Mansfield (2)
Marion
Newark
Niles
Springfield
Xenia
Youngstown

PENNSYLVANIA
Allentown
Cleona
*Doylestown
Fairless Hills
Gettysburg
Hanover
Harrisburg
Johnstown
Kingston
Lansdale
Minersville
Reading
Scranton
Wilkes-Barre

TENNESSEE
Johnson City (d/b/a Kens)
Kingsport
Knoxville
Oak Ridge

VERMONT
Essex Junction
Rutland

VIRGINIA
Danville
Newport News
Norfolk (2)
Richmond (2)
Virginia Beach

*Opened Spring 1975

DIRECTORS AND OFFICERS

DIRECTORS

AARON O. COHEN	*Chairman**
MURRAY A. CANDIB	*Vice Chairman**
F. WALTER ERICH	*Vice President and Treasurer**
AARON G. GOLDBERG	*Senior Vice President**
NATHAN GREENBERG	*Vice President and Secretary**
JACK I. HARTBLAY	*Vice President*
WILLIAM F. KENNEY	*President†*
CHARLES J. KITTREDGE	*Senior Vice President, First National Bank of Boston‡*
PAUL KWASNICK	*Executive Vice President**
PHILIP L. LOWE	*President, Philip L. Lowe & Associates, Inc.‡*

*Member of the Executive Committee
†Chairman of the Executive Committee
‡Member of the Audit Committee

OFFICERS

AARON O. COHEN	*Chairman-Chief Executive Officer*
MURRAY A. CANDIB	*Vice Chairman*
WILLIAM F. KENNEY	*President*
PAUL KWASNICK	*Executive Vice President*
AARON G. GOLDBERG	*Senior Vice President*
F. WALTER ERICH	*Vice President-Treasurer*
NATHAN GREENBERG	*Vice President-Finance and Secretary*
MORTON S. FISHER	*Vice President-General Merchandise Manager*
JACK I. HARTBLAY	*Vice President-New York Office*
PAUL K. BREADY	*Vice President-Store Operations*
ALBERT J. BUCZKO	*Vice President-Sales Promotion*
ALEX F. GILBODE	*Vice President-Security*
HUGH D. ROGOVIN	*Vice President-Real Estate*
ANDREW SENATORE	*Vice President-Personnel*

TRANSFER AGENT AND REGISTRAR — Common Stock
The First National Bank of Boston, Boston, Mass.

TRUSTEE — Subordinated Debentures
Wachovia Bank and Trust Company, N.A.
Winston-Salem, North Carolina

GENERAL COUNSEL
Parker, Chapin and Flattau
530 Fifth Ave., New York, N.Y.

AUDITORS
Peat, Marwick, Mitchell & Co.
One Boston Place, Boston, Mass.

LISTING
New York Stock Exchange
Symbol KDT
(Common Stock and Debentures)

KING'S DEPARTMENT
STORES, INC.

Executive Offices
150 California Street, Newton, Mass. 02158
New York Office
330 West 34th Street, New York, N.Y. 10001
Distribution Center
Chelmsford, Mass. 01824